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26 July 1974

MEMORANDUM FOR THE RECORD

SUBJECT: DCI Congressional Briefing -- The Oil
Situation

The attached briefing was requested by Mr.  of the DCI's Briefing Staff. It was prepared by  of this Branch and forwarded to the requestor 29 July 1974.

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Attachment:
as stated.

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DCI CONGRESSIONAL BRIEFING

THE OIL SITUATION

- I. Sagging Free World oil demand coupled with increased Arab oil production has lead to a oversupply of crude oil in the world market approaching 2 million b/d.
 - A. Oil consumption in the U.S. has remained below last year's level despite relaxation of some conservation measures.
 - 1. Consumption has been running about 4% below last year's level.
 - 2. Stocks are now unusually high for this time of the year.
 - 3. U.S. refinery operation are about 6% below a year ago.
 - B. Western Europe and Japan also are in a good position with respect to oil supplies.
 - 1. Consumption in Western Europe is below last year's level.
 - 2. Commercial oil stocks are at or near capacity levels and national security stockpiles are largely rebuilt.

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3. Japanese consumption is slightly above last year's level for this time of year but well below the 10% average increase registered during the last three years.

4. Oil stocks are approaching record levels

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C. Free World oil production has risen by more than 2 million barrels per day (b/d) since January but is still about 800,000 b/d below the record level in September 1973.

1. Arab countries have accounted for virtually all of the increase in crude oil production.
2. Saudi Arabia alone has increased output by 1.5 million b/d since January.
3. Output is down in Venezuela, Iraq and Libya - Venezuela cut output for conservation reasons but Iraq and Libya cut because they could not get the extremely high prices they have asked.

II. Increased Arab production, coupled with a world-wide decline in demand has put downward pressure on crude oil prices.

A. Auction sales that drew so much attention last winter were met with wide-spread indifference from buyers this summer.

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1. Kuwait's auction of 1.25 million b/d closed with no reports of bids above 93% of posted price (\$10.74) for any significant amounts.
 2. Iran's auction of 215,000 b/d failed to attract many of its current auction oil customers with most bids received below the desired minimum of 93% of posted price.
 3. Ecuador received only 2 bids on its auction of royalty oil, both of which were more than \$2.00 below the \$13.70 reference price.
- B. Oil company buy-back prices for participation crude in Nigeria and Libya have recently been lowered.
- C. Spot market prices for crude oil in Europe have been steadily declining over the last several months.
- III. Despite the growing oversupply of crude on the world market some OPEC countries have forced companies to pay higher prices.



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- B. Indonesia boosted its sale price by 90 cents per barrel in June.

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- C. Venezuela boosted its July posted price on lighter crudes increasing the cost of an average barrel by 24 cents.
 - D. Ecuador increased its profits tax in June, raising the export cost of oil by about 50 cents a barrel.
- IV. Uncertainty in the world oil market will probably increase markedly during the next week or so

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- B. There are indications that some OPEC members are ready to cut production to maintain prices.
- C. Since no members of OPEC -- including Saudi Arabia -- wishes to render the organization ineffective, pressure for a compromise should quickly surface.

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